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Founded in 1902

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Surface Transportation Board
Attn: Docket No. EP 704
395 E Street, S.W.
Washington, DC 20423-0001

Re: Review of Commodity, Boxcar, And TOFC/COFC Exemptions

The United States Gypsum Company, subsidiary of USG Corporation (USG), a Chicago, IL based Corporation, offers the following comments regarding the STB's Review of Commodity, Boxcar, and TOFC/COFC Exemptions. We'd first like to provide a few qualifying statements on who we are, what we ship and the scope of our rail operations in the US.

Who We Are

For more than 100 years, Chicago-based USG has been a leader in producing innovative products and systems to build the environments in which we live, work and play. As the inventor of gypsum wallboard and mineral wool ceiling tile, USG created North America's building materials industry. Our products are used in everything from major commercial developments and residential housing to simple home improvements. Our flagship brands include SHEETROCK® Brand gypsum panels and DUROCK® cement board, which are recognized around the world.

USG is North America's leading producer of gypsum wallboard, joint compound and a vast array of related products for the construction and remodeling industries. We are also the global leader in the manufacture of ceiling suspension systems and are recognized as the premier acoustical panel and specialty ceiling systems innovator. Our family of products provides creative building solutions that set new standards for productivity and efficiency, helping contractors and architects deliver high quality and innovative designs.

USG, through its subsidiary L&W Supply, is also the nation's largest distributor of drywall and related building products. L&W serves the professional contractor through a network of more than 160 locations and strives to be their preferred source for all quality products and services they need to complete their projects on time and on budget.

Our steadfast commitment to the company's core business beliefs - safety, integrity, service, innovation, diversity, efficiency and quality - have helped us become the

Industry leading company we are today. USG's 10,000 employees working in more than 30 countries are dedicated to helping our customers and partners achieve success.

What We Ship

USG ships an array of raw materials and finished products throughout the US, Canada and Mexico via the North American rail and intermodal networks. Items shipped include commodities in the following two digit STCC categories: 14, 26, 28, 32, 38 and 40. These commodities ship in a combination of RR and private equipment and include boxcars, centerbeams, hoppers (both open and closed), gondolas, 40' and 45' ISO containers and 53' domestic containers.

Rail Operations

USG has 36 manufacturing plant locations throughout the US, 33 of which are rail served. We are directly serviced by a combination of 4 Class I RR's (UP, BNSF, NS and CSX) and 11 Shortlines. A summary of our 2010 rail activity includes:

1. 10,000 outbound carload shipments of finished products to our customers and plants.
2. 6,000 inbound shipments of raw materials to our manufacturing plants.
3. 450 leased railcars to support inbound raw material requirements.
4. Two unit train operations supporting inbound raw material.
5. Two internally operated private RR's for raw materials and Class I interchange.
6. Two industrial switch contractors managing Class I RR interchange.
7. 4,000 domestic container shipments to our customers and plants.
8. 15,000 TEU's exported, 2/3 of which ride the US intermodal rail network.

USG's day to day rail operations are managed de-centrally at the plants. Carrier relationships, rates, service and strategy are controlled and managed centrally in Chicago. To stay current in all aspects of the rail business, we actively participate in a number of Transportation Industry Associations including: North American Railshippers Association (and their regional affiliates), CSCMP, Traffic Club of Chicago and IANA. We are an EPA SmartWay Certified Shipper and a 2009 SmartWay Excellence Award winner, which recognized our accomplishments in transportation sustainability and excellence.

Discussion

With our qualifications as a significant rail shipper clearly established, we want to first open by stating the classification of "exempt" works for USG. It supports our fundamental belief that "free markets" provide the greatest value for our customers, our operations and our stakeholders. The ability to negotiate competitive rail solutions that address our needs for service, quality and cost is a vital part of our success in meeting the competitive challenges of our marketplaces and satisfying our customers' expectations.

When evaluating our lanes of traffic, we routinely compare rail, truck and intermodal mode solutions. In addition we'll also use variable cost modeling tools to help in the benchmarking process. This benchmark is critical to the process of developing market based and competitive rail solutions. We want the railroad industry to compete for our business and offer us solutions based on quality, service and rate. Market based rates better serve our interests versus rates developed on the basis of "will they survive a shipper rate challenge". The opportunity to discuss competitive alternatives, service and rate in a free market environment enriches the process and ultimate solution. In our opinion, the loss of "market" based solutions will only point to one thing for USG, increased cost and lost opportunities.

A good portion of our rates fall under the category of private contract and/or private quote rates. These private rates are based on competitive value and they usually support our investment decision for infrastructure, such as rail on the ground or leasing private equipment. These rate structures typically support a business strategy for us in our competitive marketplace as well. Losing the ability to negotiate private rate structures based on competitive value will eliminate the important strategies that we use in our very competitive industry. The density of our manufacturing network represents a significant competitive advantage for us, and we are not interested in giving up our "exempt" commodity status and publishing our "playbook" for the market to see.

USG has made significant investments in rail at our manufacturing plants, the majority of which has been post Staggers. From the hard assets on the ground to the leased rolling stock moving our products, the cumulative investment has been in excess of $100 million. As a matter of fact, over the last 15 years, access to rail has been a strategic requirement for any new manufacturing facility constructed within our network. Those investments were made on the basis that USG purchased "exempt" commodities that allowed us to justify the investment based on the competitive value of the rail solution. We cannot afford to have the "rules" changed and risk that over time these investments will diminish in value.

We use a variety of transportation modes to serve our business. With a total transportation spend of approximately $400 million annually, rail represents about 15% of our total spend. While predominantly a truckload shipper, we utilize rail in lanes where it offers us the best value. Rail is the most efficient and safest mode for moving our products in those lanes. Let us emphasize this point, we utilize rail in select lanes because it's the most competitive mode when compared against alternatives. The process has served us well since Staggers and we desire to utilize market-based rail solutions in the future.

The previous sections provided comments specific to USG, we'd like to offer some higher level comments concerning the transportation industry as a whole and our views towards the rail industry for the future.

There have been many published studies that project the condition of the nation's transportation network over the next 20 to 30 years. These studies all have a common theme. Without significant investment, the US transportation network's productivity and capacity relative to demand will decline, particularly in our metropolitan centers. The challenges are distributed among all modes of transportation but show that highway is particularly distressed. The highway issues are extremely complex and indicate the need for staggering amounts of money and coordination at the federal, state and local levels. With no clear direction and solution in sight, the future horizon for highway transportation is not bright.

While rail has a similar large investment need, the actions necessary to move forward are significantly different. As a private network, the railroad industry funds its own maintenance of business and capacity growth. Over the last few years they've also created a number of private/public partnerships to enhance and accelerate the investment process. The bottom line is that the railroad industry is poised to address the growing needs of the country's transportation network and do it primarily by itself. It is USG's fundamental belief that a dollar invested in rail for the future will move more freight, move it safer and move it more environmentally friendly than that same dollar invested in any other competing mode.

The issue of rail investment is significant. Over the last 5 to 7 years, the railroad industry has invested in infrastructure, has become more productive and expanded their operations. Along with these improvements came improved profitability. Some have referred to these improvements as a "rail renaissance". This increased profitability has been the focus of intense debate and has resulted in a call for change by some shippers. The calling of this hearing is but one example. It's USG's position that this "renaissance" was the intended objective of the Staggers Act. One only need look at the "before" and "after" picture. Prior to Staggers, the railroad industry was dying and systematically broken with no means for reinvesting. While it been a long journey since Staggers, we've seen mergers, contraction and then expansion of the shortline industry, work rule changes, falling rates, innovation and technology all culminating in the momentum of the last 5 to 7 years. Un-matched by any industry in the country, the railroad industry is now voluntarily investing almost 20% of sales back into the business, to make itself more reliable, more competitive and to answer the growing transportation needs of the country. As a shipper we cannot afford to move backward. The US economy and our transportation network needs the railroads healthy, growing, investing, hauling more freight and taking trucks off the highways for which there is no infrastructure solution in sight.

The railroad system is not broken, it's not in need of an overhaul and it does not need more regulation. The objectives of the Staggers Act are being met and fulfilled every day. The industry has adapted, it's healthy, it's re-investing in itself and it's growing to meet the future needs of the nation. True to the Act's original intent, our objective now is to stay out of the way and let the progress continue.

Respectively Submitted,

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